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# **OFFICE OF STATE ADMINISTRATIVE HEARINGS**

**(20200)**

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**PURCHASING CARD AUDIT  
Final Report  
June 5, 2008**

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# **Executive Summary**

## **Office of State Administrative Hearings**

### **20200**

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Text in green represents the Office of State Administrative Hearings' exceptions to the Draft Summary Report.

Text in blue represents the State Purchasing Process Improvement's response to the Agency or revisions made to the Draft Summary Report.

## **Purpose and Objectives**

The Process Improvement Team from the Department of Administrative Services, State Purchasing Division, recently conducted a process improvement review of the purchasing card program at the Office of State Administrative Hearings (OSAH) for the period August 28, 2006, through September 27, 2007. This review had the following purposes:

1. To determine if purchasing card activities complied with the Statewide Purchasing Card Contract Guide and Agency policies and procedures;
2. To identify "best practices" that the Agency has implemented;
3. To identify areas of risk to the Agency and/or to the State; and
4. To develop action plans for improvement of the program as implemented at the Agency, if warranted.

Each State organization has a responsibility to ensure that their purchasing card activities are controlled and that their risks are prudently and soundly managed. It is the responsibility of the Process Improvement Team within State Purchasing Division to assess use of and controls on the program. The Process Improvement Team uses a risk-based approach to classify areas in need of improvement into pre-defined high, medium, and low risk levels. This report discusses only the high and medium risk levels and summarizes the results of the review, recognizes areas of outstanding program management, and presents recommendations for improvements.

### **OSAH Exception #1**

Finally, compliance with the Report's standards constitutes a practical impossibility. The standards articulated in the State Purchasing Card Policy issued in November, 2007, constitute helpful guidance for future purchasing activities. It is unreasonable, however, to use the November, 2007 standards for a retroactive analysis of OSAH purchasing activities and risk assessment.

### **State Purchasing Division Response to Exception #1**

Findings in this report were based on comparison of actual performance against the requirements of the State Purchasing Card Contract Guide dated July 2005 and found on the State Purchasing Division web site prior to November 2007. The report references this document in all findings. The recommendations included in each finding referenced the new statewide policy in order to provide assistance in developing and/or revising the Agency policy, as applicable, in order to bring the policy and actual practice into compliance with new State requirements.

Other standards applied were those contained in the Georgia Procurement Manual, the Georgia Vendor Manual, and the State Accounting Manual, documents available to, and applicable to, all State Agencies and their personnel.

### **OSAH Exception #2**

Most importantly, the Report fails to acknowledge the absence of fraud and abuse in the use of the State purchasing card by OSAH. This omission creates a misleading picture of OSAH Purchasing Card activities and overall risk level at OSAH.

### **State Purchasing Division Response to Exception #2**

The purposes of the Process Improvement review were identified in the opening paragraph of the report. The purpose of the report was not to make the statement that there was no fraud. The purpose of the review was to evaluate the Agency's purchasing card activities and to make recommendations for improvement where needed. The recommendations were intended to inform Agency personnel of the new requirements of statewide policy in areas where current practice did not comply with the newer requirements.

## **Scope and Methodology**

The evaluation of the State Purchasing Card Program as implemented at OSAH included the following: a review of the Agency's purchasing card policy; a review of the transaction data; conversations with personnel involved in the day-to-day operations of the program; and an on-site review of the documentation for a sample of transactions.

The review consisted of three program areas;

1. Internal Controls Review – an examination of the Agency's purchasing card policy and internal controls over the program;
2. Transaction Data Review – a review of transaction analysis reports in Works Payment Manager;
3. On-Site Review to determine if:
  - a) The Agency maintained adequate documentation for all transactions;
  - b) Management oversight of card activity, including supervisory review, met minimum requirements as outlined in the State Contract Guide;
  - c) Cardholders complied with transaction limits imposed on the cards;
  - d) Transactions complied with requirements of the Official Code of Georgia (O.C.G.A.), the State Purchasing Card Contract Guide, and Agency policy with respect to types of purchases allowed on the card; and
  - e) Employees complied with the Agency's internal policy for use of the card.

### **OSAH Exception #3**

Importantly, the Report fails to identify OSAH as an "attached agency". In fact, the General Assembly placed responsibility for OSAH purchasing and its documentation, processing and reporting upon the Department of Administrative Services. OCGA 50-4-3. 50-40-13. The Report omits an explanation of this "attached agency" relationship and fails to acknowledge that

DOAS possesses the documentation of OSAH purchasing activities. The failure to explain this relationship creates many of the inaccuracies and distortions of the Report.

### **State Purchasing Division Response to Exception #3**

Research into the Official Code of Georgia, Annotated, on LexisNexis did not yield any search results for Section 50-40-13. However, Section 50-13-40 provides for the establishment of the Office of State Administrative Hearings and its attachment to the Department of Administrative Services for administrative purposes only, as defined in Section 50-4-3.

OCGA 50-4-3 provides for smaller agencies to be administratively attached to larger agencies to relieve the smaller agency of the burden of hiring administrative and clerical staff that would not be feasible from a budgetary standpoint. The code section states that the attachment is for administrative purposes only and that the attached agency maintains its own identity, including responsibility for its own policy-making.

Furthermore, the State Purchasing Card Contract Guide, the statewide policy in effect prior to November 2007, assigns responsibility for purchasing card policy to the Agency and purchasing card activity to the cardholders, their supervisors, and, ultimately, to their agencies. As the Agency to which OSAH is attached, DOAS is responsible only for ensuring the timely payment of the monthly billing statement and maintaining the documentation submitted by OSAH for the time period specified for records retention.

Therefore, there was no need to identify OSAH as an “attached” Agency in the report.

## **Acknowledgements**

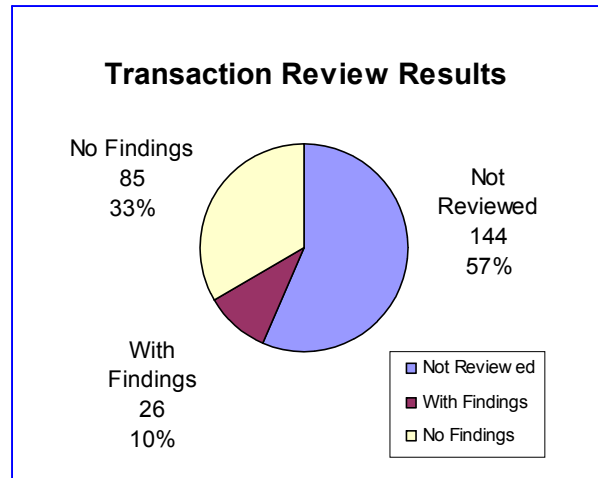
The Process Improvement Team would like to thank Lois Oakley and Bonita Streetman for their responses to email inquiries. The Process Improvement Team would also like to thank Charles Petty, Director of Administration; Tim Wright, Accounting Director; and Matt Carter, Procurement Manager, with the Department of Administrative Services for their assistance and cooperation during the review.

## Summary of Findings

Cardholders made 255 transactions for a total of \$66,276.56 during the period under review. As shown on the chart to the right, the Process Improvement Team reviewed 111, or 43.53%, of these transactions. Of the reviewed transactions, 26 contributed to four findings related to transactions. Lack of an Agency policy and non-compliance with existing State and DOAS requirements for using the card resulted in an additional three findings related to program administration.

This report presents recommendations to ensure that the Agency develops a policy suited to its needs while complying with the State Purchasing Card Policy published in November 2007. Other recommendations include additional training for cardholders and approving officials.

The tables below summarize the areas for improvement according to risk level and program area, along with suggested mitigation strategies for improving program administration.



The Process Improvement Team will perform a follow-up review no later than 12 months from the date of this report to determine level of improvement in these areas.

### High Risk Areas

| Finding                                    | Analysis Area     | # of Occurrences | Transaction Amounts | Mitigation Strategy          | Page # |
|--|-------------------|------------------|---------------------|------------------------------|--------|
| No Agency Purchasing Card Policy           | Internal Controls | 1                | N/A                 | Policy development; training | 6-7    |
| Inadequate Internal Review of Transactions | Internal Controls | 1                | N/A                 | Policy development; training | 7-9    |
| No Cardholder Agreements on File           | Internal Controls | 2                | N/A                 | Policy development; training | 9-10   |
| No Documentation in File                   | On-Site Review    | 6                | \$435.99            | Policy development; training | 11-13  |
| Inadequate Invoice Information             | On-Site Review    | 12               | \$2,267.70          | Policy development; training | 13-15  |
| Use of Card for Personal Purchasees        | On-Site Review    | 1                | \$49.78             | Policy development; training | 15-17  |

## Medium Risk Areas

| Finding              | Analysis Area  | # of Occurrences | Transaction Amounts       | Mitigation Strategy          | Page # |
|----------------------|----------------|------------------|---------------------------|------------------------------|--------|
| Payment of Sales Tax | On-Site Review | 4                | \$259.31<br>(\$16.24 tax) | Policy development; training | 17-18  |

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## Findings by Program Area

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### ***Internal Controls***

The purpose of the Internal Controls Program is to determine if entity policies and procedures, when followed, adequately address the controls needed in order to protect the Agency against fraudulent use of the purchasing card.

#### **1. No Agency Purchasing Card Policy**

The Office of State Administrative Hearings does not have an Agency purchasing card policy. Review of program administration and transactions showed a lack of compliance with the State Purchasing Card Contract Guide.

**Implication:** 1) Agency staff unaware of/not following rules and regulations which can lead to (a) financial losses; (b) fraud; (c) lawsuits; and (d) other risk exposure to the Agency or State; and 2) the Agency is not using the card to its full potential because of out-of-date or inaccurate restrictions on allowable purchases.

**Level of Risk:** **High** due to lack of adequate guidelines and non-compliance with existing guidelines.

**Reference:** State Purchasing Card Contract Guide

#### **Recommendation:**

The State Purchasing Card Contract Guide requires Agencies to have a purchasing card policy that complies with the statewide policy. It is recommended that Agency management develop and adopt its own policy that not only complies with the new State Purchasing Card Policy and State Purchasing Card Administrative and User's Guide as published in November 2007, but also addresses any unique needs that the Agency has. It is also recommended that management send a copy of the updated policy to Process Improvement for review.

It is further recommended that the Agency provide training to all cardholders on the Agency policy once it is adopted.

#### **Action Plans:**

1. Review the new Statewide Purchasing Card Policy and Purchasing Card Administrative and User's Guide and use these documents to develop an Agency-specific internal policy and procedures by August 29, 2008.
2. Provide a copy of the updated Agency purchasing card policy to Process Improvement by August 29, 2008.
3. Meet with all cardholders to review the new State and Agency policies by September 30, 2008.

Cardholder (name omitted for publication) attended a training session conducted by the DOAS Agency Procurement Office on November 27, 2007. The State Purchasing Card Program Manager was also involved in this meeting. This training will satisfy the requirement for Agency cardholders to review State policies. The Agency is to be commended for taking this proactive step to ensure cardholders are adequately trained.

It is recommended that Agency policy be reviewed with cardholders once it is adopted.

4. Process Improvement will review the policy and provide feedback within 30 days of receipt of the policy.

#### **OSAH Exception #4**

The Report incorrectly states that the Office of State Administrative Hearings “does not have an Agency purchasing card policy”. The November, 2007 State Purchasing Card Policy has been adopted by the Office of State Administrative Hearings.

#### **State Purchasing Division Response to Exception #4**

The Process Improvement Team requested a copy of the policy for OSAH during the review and was told that OSAH follows the DOAS (Agency) policy. The State Purchasing Card Contract Guide, the statewide policy in effect during the period under review, required each Agency to have its own internal policy that addressed any unique needs or requirements that the Agency might have. The Agency’s status as an “attached” Agency does not relieve management of this responsibility.

The State Purchasing Card Policy issued in November 2007 sets forth State Purchasing Division and Agency responsibilities in general terms and is intended to provide minimum standards for each Agency. The policy requires each Agency to develop its own internal policy detailing how its cardholders are to use the card. The State Purchasing Card Administrative and User’s Guide provides more information on how Agencies are to run the program on a day-to-day basis. Guidelines from this document can also be incorporated into the Agency policy.

Management is to be commended for apprising Agency cardholders of the new statewide policy. However, management should still draft its own policy with Agency-specific requirements and responsibilities and communicate this information to all cardholders once adopted.

This finding will remain in the report.

**Implications:** Original implications will remain.

**Level of Risk: High** will remain.

## **2. Inadequate Internal Review of Transactions**

Because 23.42% of transactions reviewed (26 out of 111 reviewed transactions) contributed to one or more findings, it appears that OSAH personnel do not conduct adequate supervisory or other review of transactions.



**Implication:** 1) the Agency does not have adequate or independent oversight of the transactions; 2) fraudulent transactions could go undetected; and 3) lack of adherence to State policy.

**Level of Risk:** **High** due to the number of policy violations and/or transactions with inadequate documentation noted during this review.

**Reference:** State Purchasing Card Contract Guide

**Recommendation:**

The State Purchasing Card Policy requires each Agency to perform internal audit or other transaction monitoring activity on a regular basis. The internal review should determine if all transactions are supported by invoices or other accountable documents; if all transactions are for legitimate business needs; and if cardholders are maintaining documentation appropriate for the type of transaction.

It is recommended that the Office of State Administrative Hearings implement regular internal reviews of its purchasing card transactions. Any deficiencies in documentation or other issues, such as payment of sales and use tax, should be addressed immediately in order to rectify the condition.

In order to inform both cardholders and management of program requirements, especially the documentation requirements, it is recommended that all personnel involved with the purchasing card attend the new State Purchasing Division training class, Introduction to Purchasing Card Principles. The State Purchasing Division has also made available to the agencies a PowerPoint presentation that summarizes the program and a checklist for agencies to use in order to evaluate its program. It is recommended that management take advantage of these new resources.

**Action Plans:**

1. Incorporate into the Agency policy the requirement for review of all transactions in addition to the monthly supervisory review by August 29, 2008, using the guidelines in the self-assessment tool, attached to this report as Exhibit A.
2. Designate the person or persons to conduct this independent review, frequency of reviews, and how the sample of transactions will be selected by August 29, 2008.
3. The person or persons responsible for conducting both supervisory review and the independent review should attend the new Introduction to Purchasing Card Principles class offered by the Professional Development unit within State Purchasing Division. Training should be completed by September 30, 2008. Schedule and registration information for this class is shown on Exhibit B.

**OSAH Exception #5**

The Report incorrectly states that the Office of State Administrative Hearings personnel “do not conduct adequate supervisory or other review of transactions.”

In fact, the agency head continues to review monthly statements of purchasing card activity by the Office of State Administrative Hearings for fraud and abuse. Going

forward, exhaustive documentation and explanation, in addition to that routinely provided by vendors, will be forwarded to DOAS for analysis prior to the processing of the monthly OSAH invoice.

#### **State Purchasing Division Response to Exception #5**

The high level of risk associated with inadequate internal review does not refer to specific findings associated with this report. Instead, it refers to the overall risk because inappropriate or fraudulent transactions could go undetected due to lack of adequate review by OSAH personnel. There were deficiencies in documentation as noted in the report, as well as payment of sales tax and disallowed purchases, that would have been identified and corrected had there been adequate internal review of transactions, by either the cardholders' supervisors and/or other personnel.

This finding will remain in the report.

**Implications:** Original implications will remain.

**Level of Risk:** High will remain.

### **3. No Cardholder Agreements on File**

The State purchasing card policy requires cardholders to sign agreements indicating their understanding of the terms and conditions for use of the card.

DOAS did not have copies of the agreements for OSAH cardholders. One of the cardholders for whom the agreement was missing made 86% of the dollar volume of transactions.

The Process Improvement Team requested copies from OSAH of the agreements for all cardholders. The agreements for two of the three cardholders could not be located and the agreement for the third cardholder was not signed by her supervisor. That form stated that his signature was on file. This does not meet the requirement for the supervisor to sign the agreement.

The Process Improvement Team received correspondence during the review that cards were terminated and the cards destroyed for those cardholders without signed agreements on file.

**Implication:** The agency does not have evidence of the cardholder's understanding of the responsibilities in the event of fraudulent or unauthorized use of the card.

**Level of Risk:** **High** due to the fact that there are no agreements on file for two-thirds of the cardholders.

**Reference:** State Purchasing Card Contract Guide

#### **Recommendation:**

The State Purchasing Card Contract Guide requires cardholders to sign agreements indicating their understanding of the terms and conditions for use of the card.

Cardholder agreements provide acknowledgement by the cardholder that all transactions will comply with State and agency guidelines. The agency should keep these agreements in a permanent cardholder file in order to defend any disciplinary actions that the agency might take as a result of misuse of the card or fraudulent use of the card.

It is recommended that all cardholders sign an agreement at the time of training when the card is issued and that supervisors sign all agreements. It is further recommended that the agency maintain files on all cardholders that contain, at a minimum, the original, signed cardholder agreement. This is also required by State policy.

#### **Action Plans:**

1. Incorporate into the Agency purchasing card policy the requirement for cardholders and their supervisors to sign cardholder agreements prior to receipt of the card by August 29, 2008.
2. Require all cardholders to sign the cardholder agreement by February 29, 2008.

#### **OSAH Exception #6**

The report incorrectly states that the Office of State Administrative Hearings “does not have evidence of the cardholder’s understanding of the responsibilities in the event of fraudulent or unauthorized use of the card”. The failure of the Department to maintain records regarding cardholder agreements is not the responsibility of the Office of State Administrative Hearings and is not probative of risk in OSAH purchasing activity. A Cardholder Agreement has been obtained from the Department of Administrative Services and is maintained in OSAH files.

#### **State Purchasing Division Response to Exception #6**

The Process Improvement Team requested copies of the cardholder agreements during the review from OSAH via an email on October 25, 2007, for those cardholders for whom DOAS did not have a copy of the agreement on file. OSAH responded on October 25, 2007, stating they were unable to provide copies of these, resulting in the citing of this finding. The State Purchasing Card Contract Guide requires each cardholder to sign an agreement acknowledging that they understand their responsibilities. The fact that an Agency is an “attached” Agency does not relieve the Agency of this responsibility.

On January 29, 2008, OSAH submitted a copy of an agreement signed by the remaining cardholder with its response to the Draft Summary Report. The Process Improvement Team commends OSAH for correcting this lack of documentation in a prompt manner.

## ***On-Site Review***

The purpose of the On-Site Review program is to determine if transactions made with the state-issued purchasing card comply with (1) the State Purchasing Card Contract Guide/Policy, (2) Section 50-5 of the Official Code of Georgia, Annotated (O.C.G.A.), (3) the Georgia Procurement Manual, (4) the Georgia Vendor Manual, when applicable, and (5) the Agency's internal purchasing card program policy.

### **OSAH Exception #7**

The Report incorrectly attributes its findings to an on-site review at OSAH. In fact, the reviewer never visited the Office of Administrative Hearings and no conversations were initiated with OSAH staff. The inaccurate description of the scope of review may account for many of the errors within the Report.

### **State Purchasing Division Response to Exception #7**

The term "on-site review" refers to the fact that the Process Improvement Team reviewed the documentation for transactions. OSAH sends all documentation to DOAS in order to support the payment of the monthly billing statement. There was no need to visit the OSAH office since all documentation was at the DOAS office. Communication with OSAH staff was done through email, some of which are referenced in responses to OSAH exceptions found in the body of this report.

The Process Improvement Team apologizes for any confusion this terminology might have caused.

## **1. No Documentation in File**

The Process Improvement Team reviewed the invoices and receipts to determine if cardholders maintained adequate accountable documents as required by the statewide purchasing card manual. As shown in the table below, six (6) transactions did not have any documentation in the cardholder reconciliation file.

A list of transactions contributing to this finding was provided to the Office of State Administrative Hearings.

|                       |  |
|-----------------------|--|
| <b>Implication:</b>   | 1) Fraudulent use could go undetected; and 2) inadequate supervisory review          |
| <b>Level of Risk:</b> | <b>High</b> due to the number of occurrences (6) and total dollar amount of \$435.99 |
| <b>Reference:</b>     | State Purchasing Card Contract Guide   |

### **Recommendation:**

It is recommended that cardholders attach some form of documentation to the monthly log or billing statement for every transaction. For those merchants that do not send

paper or electronic invoices or statements, this can be a copy of the original purchase indicating that they do not send monthly statements. Management should incorporate guidelines as to what constitutes appropriate transactions into the Agency policy using the information in the State Purchasing Card Policy dated November 2007 as a reference.

The Georgia Vendor Manual describes the information that invoices should reflect. The information applicable to purchasing card invoices or receipts is vendor information; date of the purchase; line item descriptions, quantities, and prices; and total amount of the charge. In the case of transactions for professional membership dues, the invoice should reflect the nature of the membership and the employee for whom the membership was paid. Subscriptions to magazines and newspapers should be supported by a subscription order form or renewal form showing the length of the subscription. Adequate documentation for printing jobs includes a description and/or copy of what was printed or, as in the case of newspaper advertisements, a copy of the advertisement.

It is further recommended that the cardholders, their supervisors, and others with approval responsibility take advantage of the new Introduction to Purchasing Card Principles course offered by the Professional Development unit within State Purchasing Division for assurance that Agency cardholder training is administered according to current guidelines.

#### **Action Plans:**

1. Management should incorporate specific guidelines as to what constitutes appropriate documentation for transactions into the Agency policy, using the information in the State Purchasing Card Administrative and User's Guide as a reference by August 29, 2008.
2. Cardholder supervisors and others responsible for reviewing transactions should attend the Introduction to Purchasing Card Principles training session offered by the Professional Development team within State Purchasing Division by March 31, 2008. Schedule and registration information for this class is shown on Exhibit B.

Cardholder (name omitted for publication) attended a training session conducted by the DOAS Agency Procurement Officer on November 27, 2007. The State Purchasing Card Program Manager was also involved in this meeting. This training will satisfy the requirement for the Agency cardholders to attend the Introduction to Purchasing Card Principles training session. The Agency is to be commended for taking this proactive step to ensure cardholders are adequately trained.

It is recommended supervisors and others responsible for reviewing transactions attend the required training session.

#### **OSAH Exception #8**

The Report identifies six (6) reviewed transactions as lacking required documentation. Five (5) of these transactions were processed by the vendors in an electronic, paperless manner. Purchasing relationships with those vendors who do not provide adequate documentation have been discontinued. The remaining transaction was made by the agency head to address an emergency need for OSAH office supplies prior to the return from leave of the only employee with purchasing authority. The documentation of this

transaction was inadvertently misplaced or surrendered to the vendor in connection with the return of portions of the merchandise. The agency head has shredded the State purchasing card and will abstain from future emergency purchasing activity.

#### State Purchasing Division Response to Exception #8

The intent of this finding was not to encourage the Agency to terminate a relationship with a vendor but to obtain proper documentation. The Process Improvement Team encourages the Agency to patronize vendors who meet their needs. Typical invoices and cash register receipts constitute adequate documentation. However, the cardholder is responsible for ensuring that the documentation is in file. The fact that a purchase was made in an emergency does not relieve the Agency of its responsibility to maintain documentation for that purchase.

This finding will remain in the report.

**Implications:** Original implications will remain.

**Level of Risk:** High will remain.

## **2. Inadequate Invoice Information**

The Process Improvement Team reviewed the invoices and receipts to determine if cardholders maintained adequate accountable documents as required by the State Purchasing Card Contract Guide. As shown in the table below, receipts for 12 transactions totaling \$2,267.70 did not meet the standards:

A list of transactions contributing to this finding was provided to the Office of State Administrative Hearings.

**Implication:** 1) Fraudulent use could go undetected; and 2) inadequate supervisory review

**Level of Risk:** **High** due to the number of occurrences (12) and total dollar amount of \$2,267.70

**Reference:** State Purchasing Card Contract Guide  
Georgia Vendor Manual Chapter 8, Section 8.2

#### Recommendation:

It is recommended that management include detailed explanations of what is considered adequate documentation in the agency policy. It is further recommended that the cardholders, their supervisors, and others with approval responsibility take advantage of the new Introduction to Purchasing Card Principles course offered by the Professional Development unit within State Purchasing Division for assurance that Agency cardholder training is administered according to current guidelines.

The Georgia Vendor Manual describes the information that invoices should reflect. The information applicable to purchasing card invoices or receipts is vendor information; date of the purchase; line item descriptions, quantities, and prices; and total amount of the

charge. In the case of transactions for professional membership dues, the invoice should reflect the nature of the membership and the employee for whom the membership was paid. Subscriptions to magazines and newspapers should be supported by a subscription order form or renewal form showing the length of the subscription. Adequate documentation for printing jobs includes a description and/or copy of what was printed or, as in the case of newspaper advertisements, a copy of the advertisement.

### **Action Plans:**

1. Management should incorporate specific guidelines as to what constitutes appropriate documentation for transactions into the Agency policy, using the information in the State Purchasing Card Administration and User's Guide as a reference, by August 29, 2008.
2. Cardholders, their supervisors, and others responsible for reviewing transactions should attend the Introduction to Purchasing Card Principles training session offered by the Professional Development team within State Purchasing Division by March 31, 2008. Schedule and registration information for this class is shown on Exhibit B.

Cardholder (name omitted for publication) attended a training session conducted by the DOAS Agency Procurement Office on November 27, 2007. The State Purchasing Card Program Manager was also involved in this meeting. This training will satisfy the requirement for the Agency cardholders to attend the Introduction to Purchasing Card Principles training session. The Agency is to be commended for taking this proactive step to ensure cardholders are adequately trained.

It is recommended that supervisors and others responsible for reviewing transactions attend the required training.

### **OSAH Exception #9**

The Report identifies twelve (12) transactions in which OSAH received an inadequate invoice from the vendor. The Office of State Administrative Hearings continues to review invoices for fraud and abuse and to request vendor compliance with Georgia purchasing standards. The Office of State Administrative Hearings has discontinued purchases from vendors identified as supplying inadequate invoice information. Going forward, OSAH will rely upon the Department's review of transactions for compliance with the Georgia vendor manual.

### **State Purchasing Division Response to Exception #9**

The State Accounting Manual and the State Purchasing Card Contract Guide in effect at the time of the transactions required that all transactions be supported by an invoice or statement detailing the nature of the expenditure and the amount. Specifically, the requirement was for an invoice or receipt showing a description of each item purchased, a unit price, the total amount for each line, and the total amount of the purchase.

However, it was not the intent of this finding to encourage the Agency to terminate relationships with vendors that provide needed supplies and materials. The Process Improvement Team encourages the Agency to patronize vendors who meet their needs. Typical invoices and cash register receipts constitute adequate documentation.



This finding will remain in the report.

**Implications:** Original implications will remain.

**Level of Risk:** High will remain.

### 3. Use of Card for Personal Purchases

The transaction shown in the table below appears to be personal in nature.

Management's response to this was that this type of purchase "was not addressed in the DOAS p-card Contract Guide as a prohibited expenditure." The list of prohibited purchases on page five of the State Purchasing Card Contract Guide specifically prohibits personal purchases.

A list of transactions contributing to this finding was provided to the Office of State Administrative Hearings.

**Implication:** 1) Agency has suffered a financial loss; and 2) intentional disregard of State policies.

**Level of Risk:** High due to financial loss.

**Reference:** State Purchasing Card Contract Guide

#### **Recommendation:**

According to the State Purchasing Card Contract Guide, cardholders are to use the purchasing card for small dollar purchases of supplies and materials needed by the cardholder or other employees for the performance of job responsibilities and/or for other legitimate State business needs.

It is recommended that the agency conduct new training for all cardholders, with special emphasis on the allowable and prohibited purchases. All personnel involved with the purchasing card program should take the new Introduction to Purchasing Card Principles offered by the Professional Development unit within State Purchasing Division.

#### **Action Plans:**

1. By August 29, 2008, management should incorporate the prohibition of personal purchases into the Agency policy and ensure that all cardholders know that personal purchases are not allowed on the purchasing card.
2. Cardholders, their supervisors, and others responsible for reviewing transactions should attend the Introduction to Purchasing Card Principles training session offered by the Professional Development team within State Purchasing Division by March 31, 2008. Schedule and registration information for this class is shown on Exhibit B.

Cardholder (name omitted for publication) attended a training session conducted by the DOAS Agency Procurement Office on November 27, 2007. The State Purchasing Card Program Manager was also involved in this meeting. This training will satisfy the requirement for the Agency cardholders to attend the Introduction to



Purchasing Card Principles training session. The Agency is to be commended for taking this proactive step to ensure cardholders are adequately trained.

It is recommended supervisors and others responsible for reviewing transactions attend the required training.

#### **OSAH Exception #10**

The Report incorrectly identifies a single transaction as “appear[ing] to be personal in nature”. This conclusive statement is a serious allegation and without basis in fact. Multiple communications in explanation of the purchase (total of \$49.78) for legitimate State business needs are not reflected in the Report. Going forward, the Office of State Administrative hearings will request the Department’s issuance of a purchase order for items which could be interpreted as questionable purchases.

#### **State Purchasing Division Response to Exception #10**

Use of the words “appear” or “appears” in audit reports is standard industry terminology to differentiate between “appearances” and “conclusive statements”. Auditors use this terminology whenever a condition could have one or more mitigating factors that are not readily discernible by the evidence at hand or responses to inquiries.

The second paragraph of the finding addresses management’s response to the Process Improvement Team’s inquiry into this transaction. The finding, says, “Management’s response to this was that this type of purchase ‘was not addressed in the DOAS p-card Contract Guide as a prohibited expenditure.’ The list of prohibited purchases on page five (5) of the State Purchasing Card Contract Guide specifically prohibits personal purchases.” OSAH made this comment in a hard copy document received by Process Improvement on 10-05-07.

The purchasing card is to be used for supplies and materials for State business, not for items that could be construed as personal in nature, such as birthday cards and decorations, as in the case of the cited transaction. This type of item is not to be purchased with State funds, either with the purchasing card or with a purchase order.

This finding will remain in the report.

**Implications:** Original implications will remain.

**Level of Risk:** High will remain.

## **4. Payment of Sales Tax**

The Office of State Administrative Hearings had four transactions that had sales tax paid of \$16.24. The transactions in the table below contributed to this finding.

A list of transactions contributing to this finding was provided to the Office of State Administrative Hearings.

**Implication:** 1) State has paid more for goods than it should have, resulting in a financial loss; and 2) inadequate supervisory review.

**Level of Risk:** **Medium** due to the number of transactions (4) and dollar volume of \$16.24 in tax.

**Reference:** O.C.G.A. § 48-8-3(1)  
State Purchasing Card Contract Guide

**Recommendation:**

O.C.G.A. § 48-8-3(1) exempts state Agencies from payment of State Sales and Use Tax when payment is made directly by the agency regardless of the method of payment. The State Purchasing Card Contract Guide requires cardholders to inform merchants of the agency's tax-exempt status and to provide a copy of the Department of Revenue's sales tax exemption certification, Form ST-5, to the merchant for their records. If the merchant charges sales tax in error, the cardholder is to obtain a credit for the taxes.

Cardholders should ensure merchants are aware of the State's tax-exempt status. Cardholders should print copies of the Department of Revenue's Form ST-5 to provide to merchants who request documentation for their files. Cardholders, supervisors, and reconciliation personnel should review all documentation to ensure that the merchant did not charge tax. If the merchant charged tax, then the cardholder should contact the merchant to receive immediate credit.

**Action Plans:**

1. Management should address the topic of sales tax with all personnel. Copies of the Department of Revenue Sales and Use Tax Exemption form, Form ST-5, should be made available to all cardholders and included in Agency policy by August 29, 2008. Instructions on how to retrieve copies of this form from the Department of Revenue web site can also be made part of Agency policy.
2. By August 29, 2008, incorporate into Agency policy management's responsibility for regular review of sales tax charged to ensure that cardholders request and receive timely credit for any amounts charged.
3. This topic is addressed in the Introduction to Purchasing Card Principles offered by the Professional Development Team within State Purchasing Division. Cardholders and their supervisors should attend one of these sessions by March 31, 2008. Schedule and registration information for this class is shown on Exhibit B.

Cardholder (name omitted for publication) attended a training session conducted by the DOAS Agency Procurement Office on November 27, 2007. The State Purchasing Card Program Manager was also involved in this meeting. This training will satisfy the requirement for the Agency cardholders to attend the Introduction to Purchasing Card Principles training session. The Agency is to be commended for taking this proactive step to ensure cardholders are adequately trained.

It is recommended supervisors attend one of the required training sessions.

### **OSAH Exception #11**

The Report identifies the incorrect assessment of sales tax in four (4) of the reviewed transactions. The Report fails to acknowledge the immediate remedial actions taken by the Office of State Administrative Hearings. In one transaction, the vendor has issued a credit. In a second transaction, the relationship with the vendor has been discontinued. The remaining transactions (a purchase and return of merchandise) were made by the agency head in the face of an emergency need for office supplies. The agency head has shredded the purchasing card, and will abstain from future emergency purchases.

### **State Purchasing Division Response to Exception #11**

When the Process Improvement Team found the transactions with tax charged, further investigation was conducted in order to determine if the vendors reversed the charges. No credits were found. However, if management has copies of statements and credit slips for the sales tax, the Process Improvement Team would welcome the opportunity to review these and to place the copies in the workpaper file for this review.

Once again, the intent of this report was not to encourage the Agency to terminate relationships with vendors but to encourage adherence to State requirements. The fact that a purchase was an "emergency" purchase does not relieve the cardholder of the responsibility to ensure that sales tax is not charged.

This finding will remain in the report.

**Implications:** Original implications will remain.

**Level of Risk: Medium** will remain.

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## **Recommendations Not Related to Findings**

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Works Payment Manager, the card administration application provided by Bank of America, provides a number of data analysis reports. These reports are available from Matt Carter, the Card Program Administrator for the Department of Administrative Services (DOAS). It is recommended that Office of State Administrative Hearings obtain the Declined Transactions report from DOAS at least on a monthly basis in order to review transactions that the Bank declined.

The Process Improvement Team reviewed this report as part of this review. The report reflected attempted charges against invalid or prohibited Merchant Category Codes, indicating that cardholders attempted to make purchases that were not allowed or were restricted.

A common reason for declines was that the cardholder did not have a large enough credit limit. Regular review of this report can enable management to review actual spending patterns against cardholder profiles to determine if credit limits are appropriate for job responsibilities. Another reason for declines was that merchants were attempting to run recurring transactions against a closed account. In order to avoid this type of occurrence, it is recommended that cardholders maintain a list of all merchants who have recurring charges. If the Agency closes the account, management could notify the merchant of the new account number to use in order to prevent disruptions of delivery of goods or services.

## Action Plan Summary

### Training Requirements

For appropriate program administration personnel, approving officials, and cardholders.

| Resulting from Finding           | Purpose   | Conducted By  | To Be Completed | Completion Date   |
|----------------------------------|---|---|-----------------|---|
| <b>Internal Controls</b>         |   |   |                 |   |
| No Agency Purchasing Card Policy | Ensure cardholders and their supervisors are familiar with State and Agency policies                | OSAH management will meet with all personnel to review State and Agency policies  | 02-29-08        | 11-27-07<br>(cardholders attended training on State policies) |
|                                  |   | Agency policy review with cardholders and their supervisors   | 09-30-08        |   |
| Inadequate Internal Review       | Ensure person or persons responsible for review are familiar with all State and Agency requirements | All program personnel responsible for internal audit or review should attend the Introduction to Purchasing Card Principles class | 09-30-08        | 11-27-07<br>(cardholders attended training on State policies) |
| <b>On-Site Review</b>            |   |   |                 |   |
| No Documentation in File         | Ensure cardholders and supervisors are aware of requirements  | All program personnel should attend the Introduction to Purchasing Card Principles class  | 03-31-08        | 11-27-07<br>(cardholders attended training on State policies) |
|                                  |   | Supervisors should attend required training   | 09-30-08        |   |
| Inadequate Invoice Information   | Ensure cardholders and supervisors are aware of requirements  | All program personnel should attend the Introduction to Purchasing Card Principles class  | 03-31-08        | 11-27-07<br>(cardholders attended training on State policies) |
|                                  |   | Supervisors should attend required training   | 09-30-08        |   |

| Resulting from Finding             | Purpose  | Conducted By  | To Be Completed          | Completion Date  |
|------------------------------------|--|---|--------------------------|--|
| Use of Card for Personal Purchases | Ensure cardholders and supervisors are aware of requirements | All program personnel should attend the Introduction to Purchasing Card Principles class<br><br>Supervisors should attend required training | 03-31-08<br><br>09-30-08 | 11-27-07 (cardholders attended training on State policies) |
| Payment of Sales Tax               | Ensure cardholders and supervisors are aware of requirements | All program personnel should attend the Introduction to Purchasing Card Principles class<br><br>Supervisors should attend required training | 03-31-08<br><br>09-30-08 | 11-27-07 (cardholders attended training on State policies) |

## Other Requirements

For appropriate program administration personnel, approving officials, and cardholders.

| Resulting from Finding           | Requirement   | Purpose  | To Be Completed | Completion Date |
|----------------------------------|---|--|-----------------|-----------------|
| <b>Internal Controls</b>         |   |  |                 |                 |
| No Agency Purchasing Card Policy | Develop Agency policy that complies with new State policy in order to provide guidance to program personnel | Strengthen internal controls; comply with State Purchasing Card Policy         | 08-29-08        | Completed       |
|                                  | Submit a copy of the updated Agency policy to Process Improvement   | Allow Process Improvement provide feedback                                     | 08-29-08        | Completed       |
|                                  | Process Improvement will review updated Agency policy   | Provide feedback in order to ensure that new policy complies with State policy | 08-31-08        | Completed       |
| Inadequate Internal Review       | Incorporate into Agency policy a regular schedule of independent internal audit                             | Strengthen internal controls; comply with State Purchasing Card Policy         | 08-29-08        | Completed       |
|                                  | Incorporate into Agency policy the responsibility for conducting internal audit                             | Strengthen internal controls; comply with State Purchasing Card Policy         | 08-29-08        | Completed       |
| No Cardholder Agreements         | Incorporate requirement for cardholder agreements into Agency policy  | Strengthen internal controls; comply with State Purchasing Card Policy         | 08-29-08        | Completed       |
|                                  | Require all cardholders to sign agreements  | Provides cardholder acknowledgement of responsibilities                        | 02-29-08        | Completed       |

| On-Site Review                     |   |   |          |           |
|------------------------------------|---|---|----------|-----------|
| No Documentation in File           | Incorporate into Agency policy specific guidelines on adequacy of documentation     | Provide guidance to program personnel; strengthen internal controls | 08-29-08 | Completed |
| Inadequate Invoice Information     | Incorporate into Agency policy specific guidelines on adequacy of documentation     | Provide guidance to program personnel; strengthen internal controls | 08-29-08 | Completed |
| Use of Card for Personal Purchases | Incorporate into Agency policy the statement that personal purchases are prohibited | Provide guidance to program personnel; strengthen internal controls | 08-29-08 | Completed |
| Payment of Sales Tax               | Make copies of DOR Form ST-5 available to all cardholders                           | Ensure that Agency does not pay sales tax                           | 08-29-08 | Completed |
|                                    | Incorporate review of sales tax charges into Agency policy                          | Ensure that Agency receives credit for sales tax when charged       | 08-29-08 | Completed |